Sound Investments Inc.

First Quarter 2015
DJIA 17776.1 S&P 500 2067.9 NASDAQ 4880.2

Summary

This still is bull market and feel and feel it will be higher a year from now. During the first three months of the year, the S & P 500 ended the year where it began. Most foreign markets did well, but when denominated in U.S. dollars, showed l losses because of local currency weakness.

We expect this slowdown will result in earnings forecast being scaled back and in fact Merrill Lynch just scaled back their earnings projections by 7%. The higher U.S. dollar is also having a downward affect on earnings.

We do not see a bear market coming but we are overdue for a correction in the order of 10% and would view this as a buying opportunity. If a correction were to occur, we think of it as a health restoring event.

Clearly, it's been an American led recovery since the bottom in 2009 and that is where we have invested. It would be hard to imagine the S & P 500 breaking down below 1600 but a correction to the 1800 to 1900 is possible.

This Investment letter is mailed quarterly to our clients and friends. The intent of this publications is to share some of our more interesting views and research.

Like a Puppet on a String

I write this letter to make it informative and interesting to clients, yet entertaining to read. When I perused Ben Levisok's article, in Barrons Magazine, I knew I could not do better ….." Elvis Presley once sang that, like a puppet on a string , **he was helpless as can be**. Right now, that about describes the stock market, which finds itself being pulled this way and that, as if by a sadistic puppeteer."

During the first three months of the year, the S&P 500 ended the quarter near where it began. However, an analysis shows energy stocks tracked the price of oil down 3.5% and utilities were down 6%, as investors are increasingly certain, interest rates will rise sometime during the year. Meanwhile, consumer stocks and banks did better producing a slight .4% gain in the S&P 500 for the Quarter. Most foreign markets did well, but when denominated in U.S. dollars, showed losses because of local currency weakness.

Slowing Growth Tests the Economy

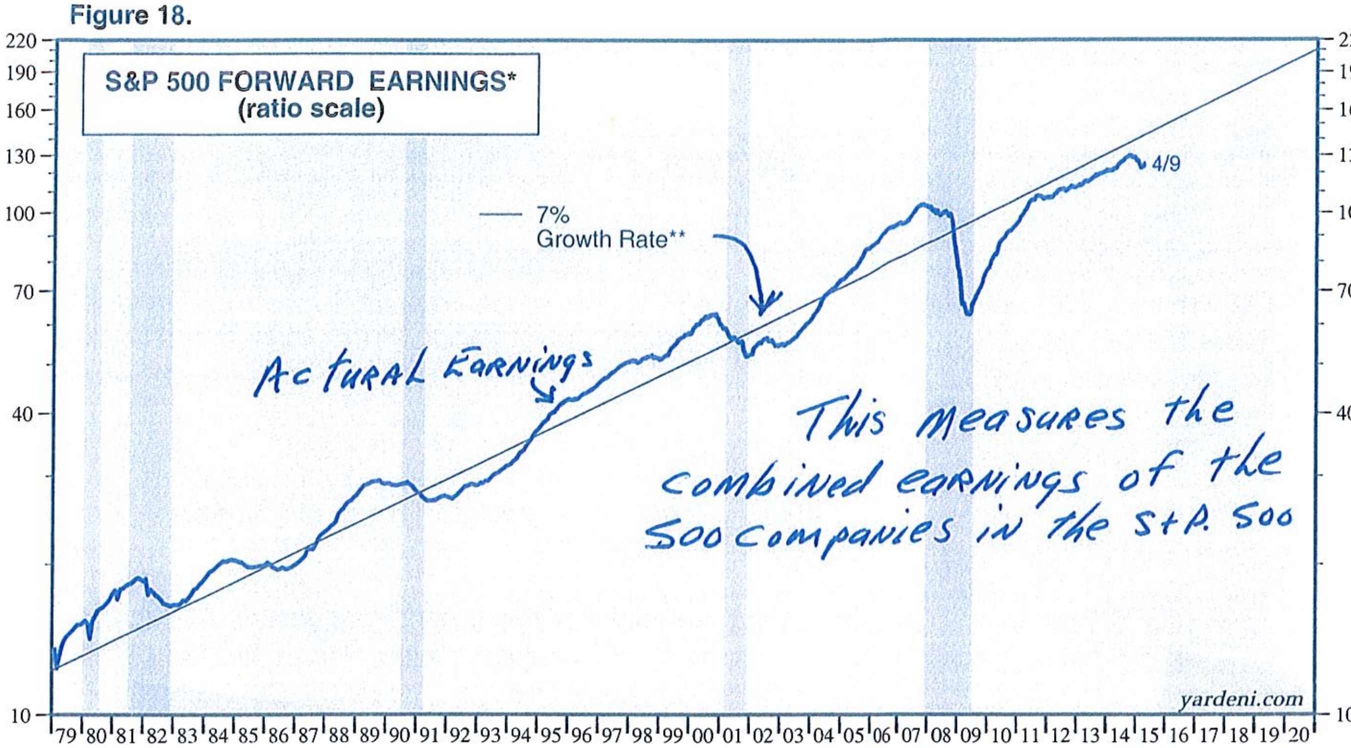
A sharp deceleration in hiring last month ended a year long stretch of heady job creation, stirring concern about broader growth amid mounting evidence of a slowdown. Retail sales were down 9% and personal consumption expenditures were down for both durable goods(2%) and nondurable goods (3.18%).

We expect this slowdown will result in earnings forecast being scaled back and in fact Merrill Lynch just scaled back their earnings projections by 7%. The higher U.S. dollar is also having a downward affect on earnings. Much of the recent sluggish growth can be chalked up to bitter cold weather and snowstorms across the eastern U.S., but the signs of weakness don't end there. Lower oil prices are sparking oil field layoffs. The above statistics don't jive with the high level of consumer confidence. One of the things that has puzzled economists, is that the windfall from falling gas prices hasn't shown up in more retail spending. It may well be that expectations may have to be ratcheted down a bit.

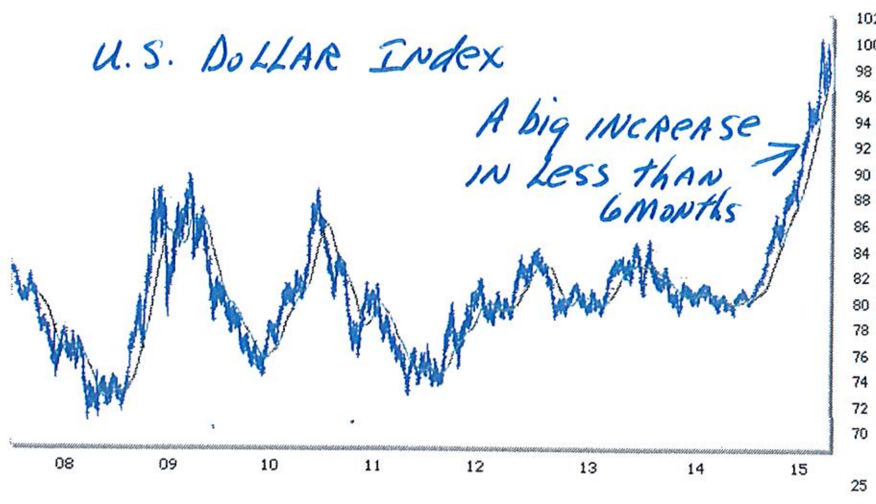
Meanwhile, we haven't seen a 10% decline or correction since

S&P 500 Forward Earnings

Figure 18.



From 1979 to 2015.



A Higher U.S. Dollar. Reduces earnings of Global Companies

From 2008 To 2015.

A Good time to go To Europe!

the autumn of 2011 which is a long stretch, according to most stock market analysts. Trying to shed more light on the situation, I thought it would be useful to look at some of the key factors that influence stock market behavior.

1,) Tight Money and Rising Interest Rates: The Federal Reserve Bank set interest rates under a dual mandate from congress to maximize the level of employment within the context of price stability. Since 2009, interest rates are at almost 0% and are expected to end the year at 0.625%. We don't have tight money or high interest rates.

2.) High Inflation: The incoming data continues to show all the major inflation indexes below normal. Even the capacity utilization reading of 78.9 is 1.2% below the long term average, which indicates we could expand more without raising inflation rates.

3.) Rapid Growth: Rapid growth is normally defined as a rate of growth domestic product (GDP) above the historic average of 3 to 3.5%. For the last 5 years, we have not even come close to this and indeed, the current projections, 2.3 to 2.7%.

4.) Overvaluation: The average S&P 500 price /earning ratio over the last 50 years was 16 to 16.5. Given the low inflation and low interest rates, we are using a range of 16.5 to 17 times operating earnings. The chart on page 2 shows the expected operating earnings per share for the total 500 stocks at $125. Therefore, multiplying the price earnings ratio (16.5 to 17) times the earnings (125) gives us a projected range of 2062 to 2125, which is slightly higher than we are right now. The higher U.S. dollar is taking a toll on the earnings of large cap global companies, and S & P 500 may decline slightly. We continue to be optimistic over the long term.

Based on the above 4 factors, we do not see a bear market coming but we are overdue for a correction in the order of 10% and would view this as a buying opportunity. If a correction were to occur, we think of it as a health restoring event.

So, If This a Soft Patch How Low Could IT Go

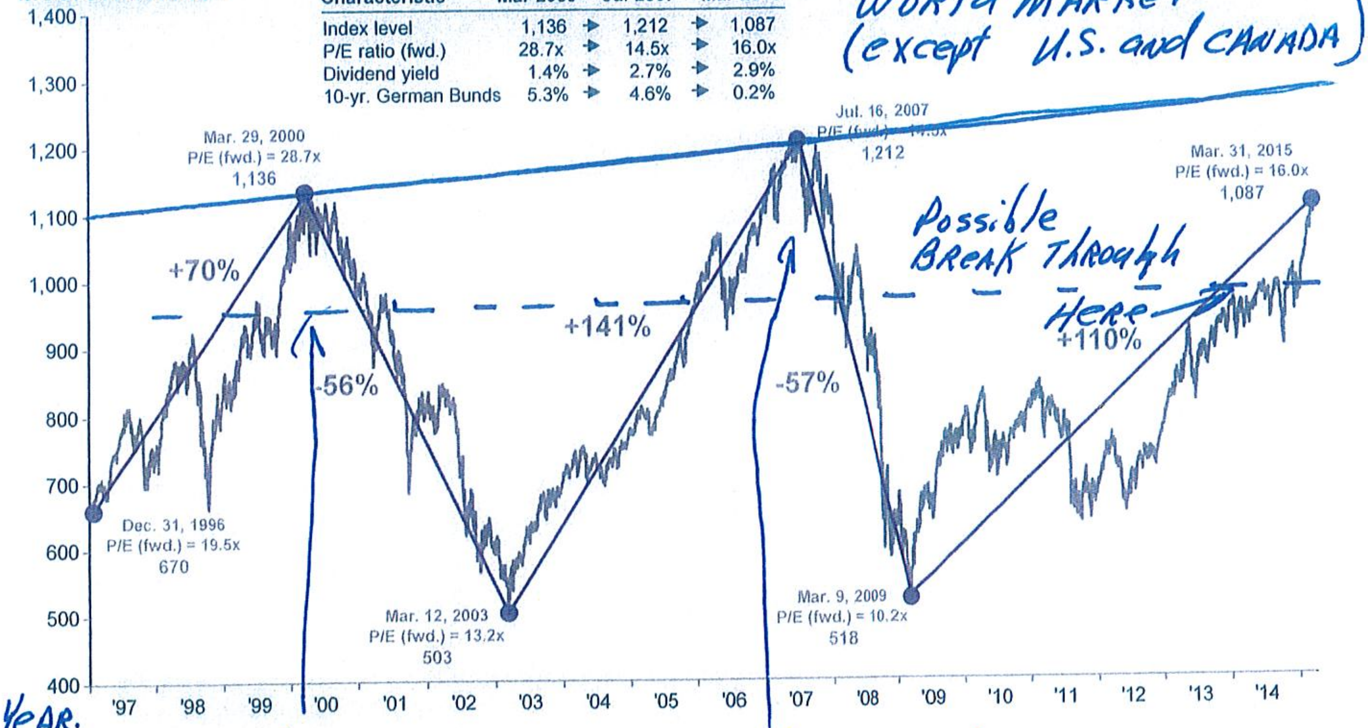
I reviewed the chart on the back of this page with many of you. I modified it to align a chart of the S&P 500 with it's European counterpart for the last 15 Years. Both charts are remarkably similar, with the internet and housing market top clearly visible. I drew a Blue Line across the 2000 and 2008 tops which represents support and resistance. (see chart on page 4). The S& P 500 chart at the bottom, clearly broke through resistance, while the European chart at the top has struggle over the last 5 years. Clearly, it's been an American led recovery since the bottom in 2009 and that is where we have invested. It would be hard to imagine the market breaking down below 1600 but a correction to the 1800 to 1900 is possible. The international markets have struggled ... in the 2003 to 2007 time period, these were some of our largest holdings and were well rewarded then.

Conclusion

I started out with how the market is being pushed to and fro and feel this is a reflection of the "soft economic data" being released. This is still a bull market and feel it will be higher a year from now. We are overdue for a correction in the order of 10%. I welcome your phone calls.

Page 4.

MSCI EAFE Index



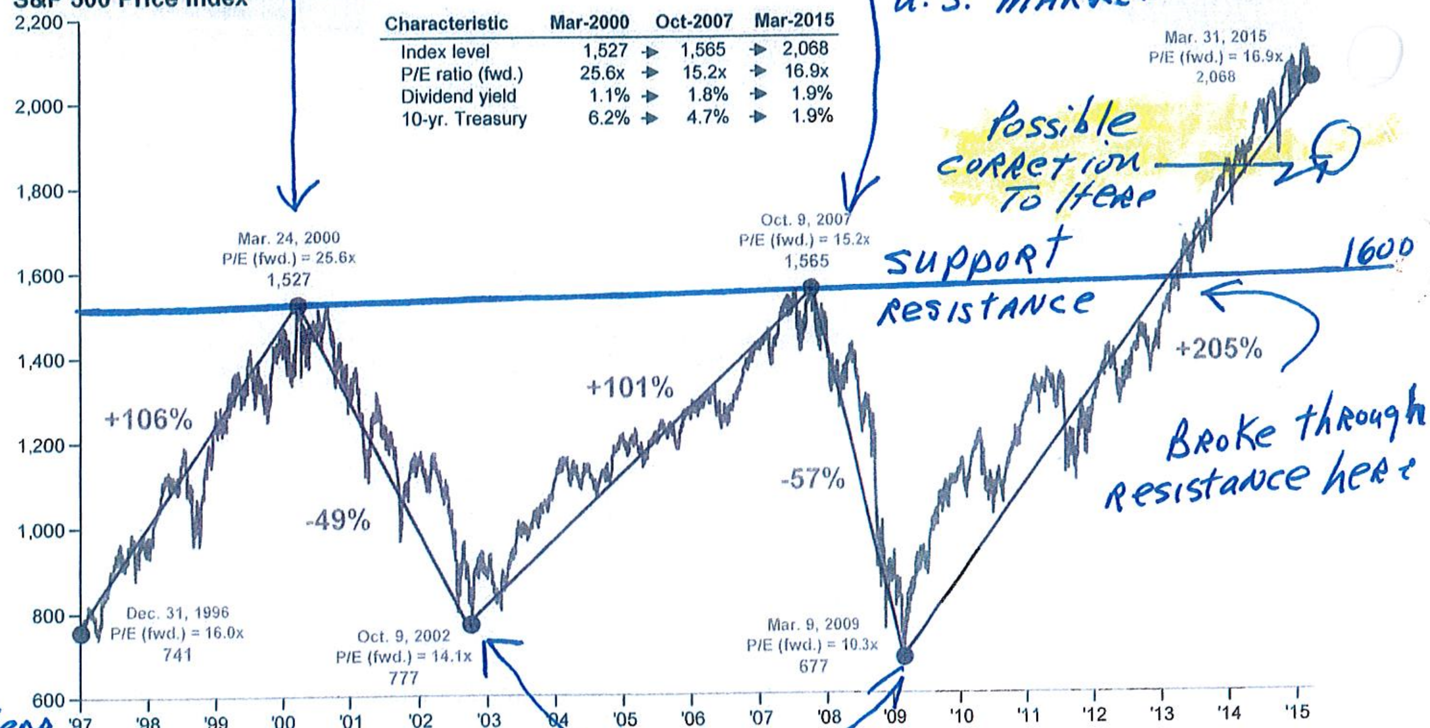
Characteristic	Mar-2000	Jul-2007	Mar-2015
Index level	1,136 →	1,212 →	1,087
P/E ratio (fwd.)	28.7x →	14.5x →	16.0x
Dividend yield	1.4% →	2.7% →	2.9%
10-yr. German Bunds	5.3% →	4.6% →	0.2%

Internet Boom

Housing Boom

U.S. market.

S&P 500 Price Index



Characteristic	Mar-2000	Oct-2007	Mar-2015
Index level	1,527 →	1,565 →	2,068
P/E ratio (fwd.)	25.6x →	15.2x →	16.9x
Dividend yield	1.1% →	1.8% →	1.9%
10-yr. Treasury	6.2% →	4.7% →	1.9%

Source: Standard & Poor's, Compustat, FactSet, J.P. Morgan Asset Management.

Dividend yield is calculated as the annualized dividend rate divided by price, as provided by Compustat. Forward Price to Earnings Ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.

Data are as of March 31, 2015.

J.P.Morgan Asset Management

Both markets bottom in 2002 and 2009.